

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2012-4-G

IN RE:

Annual Review of Purchased Gas)	JOINT PROPOSED ORDER
Adjustment and Gas Purchasing)	RULING ON PURCHASED
Policies of Piedmont Natural Gas)	GAS ADJUSTMENT AND GAS
Company, Inc.)	PURCHASING POLICIES

The above-captioned matter is before the Public Service Commission of South Carolina (“Commission”) concerning its annual review¹ of the Purchased Gas Adjustment (“PGA”) and gas purchasing of Piedmont Natural Gas Company, Inc. (“PNG”). The South Carolina Office of Regulatory Staff (“ORS”) is a party of record in this proceeding under the provisions of S.C. Code Ann. § 58-4-10(B) (Supp. 2011). PNG and ORS (collectively the “Parties” or individually a “Party”) entered into a settlement agreement (“Settlement Agreement”) which was filed with the Commission on July 2, 2012.

The Commission conducted a formal hearing in this matter on July 12, 2012, beginning at 10:30 a.m. in the hearing room of the Commission with the Honorable John E. Howard, Chairman, presiding. Nanette S. Edwards, Esquire appeared on behalf of ORS. James H. Jeffries IV, Esquire and Jeremy Hodges, Esquire appeared on behalf of PNG.

At the hearing, and upon the motion of the Parties, the Commission accepted into the record the pre-filed direct testimony of PNG witness Sarah E. Stabley and the pre-filed direct testimony and exhibits of PNG witnesses Robert L. Thornton and Keith P. Maust as well as the Settlement testimony of Mr. Thornton. The pre-filed direct testimony and exhibits of ORS

¹ See Commission Order No. 88-294 dated April 6, 1988 (annual review).

witness Daniel F. Sullivan and the pre-filed direct testimony of Carey M. Stites, as adopted by ORS witness Brent Sires at the hearing, were also accepted into the record.

The Commission accepted into evidence the Settlement Agreement as Hearing Exhibit No. 1. Mr. Thornton's exhibits (RLT 1-2) and Mr. Maust's exhibits (KPM 1-6) were entered into evidence as composite Hearing Exhibit No. 2. Mr. Sullivan's exhibits (DFS 1-3) were admitted into evidence as composite Hearing Exhibit No. 3.

At the hearing, PNG witness Thornton testified to the end of period balances in and the accounting for PNG's deferred gas cost account (Account #253.04) in order to permit the Commission to determine that PNG's true-up procedures for the period of April 1, 2011 through March 31, 2012 or the "Review Period" have resulted in a properly stated cost of gas and that PNG's gas costs are properly recorded in compliance with PNG's gas cost recovery mechanism and hedging plan. That accounting is set out in composite Hearing Exhibit No. 2. Mr. Thornton also stated that ORS audited PNG's gas cost accounting as part of this proceeding. Mr. Thornton also discussed a credit adjustment of \$2,806,898 made to PNG's gas costs accounts in March, 2012 which dated prior to 2008. According to Mr. Thornton, this adjustment consisted of \$2,304,184 in supplier refunds and \$502,714 in associated interest. Mr. Thornton explained that this adjustment was necessitated by the failure to include these supplier refunds in PNG's gas cost deferred account (Account #253.04) and its gas cost reports arising from a prior practice of recording supplier refunds in a general ledger account (Account #253.30) separate from its gas cost deferred account. Mr. Thornton further testified that the failure to record these funds in PNG's gas cost deferred account was masked as a result of the monthly differential balances created as a result of PNG's recording of estimated gas costs in that account and the subsequent true-up of those estimates. According to Mr. Thornton, as PNG's accounting practices have

improved over the last several years, the monthly differential balances in its gas costs account from the estimate/actual true-up process have diminished to the point that the imbalance in PNG's gas cost account caused by the misrecorded supplier refunds became apparent to PNG. A subsequent investigation by PNG revealed the source of this imbalance. Finally, Mr. Thornton testified that ORS audited PNG's Hedging Deferred Account, which records the results of its hedging activities undertaken in accordance with its hedging plan. This account was created pursuant to Commission Order 2002-223, which led to the implementation of PNG's experimental natural gas hedging program.

PNG witness Stabley testified as to PNG's gas purchasing policies and the components of the "best cost" gas purchasing policy. Ms. Stabley stated that PNG did not implement any changes in its "best cost" gas purchasing policies or practices during the Review Period. Ms. Stabley also testified that the "best cost" purchasing policy utilized by PNG has been reviewed and found prudent on all occasions in South Carolina and the other state jurisdictions in which PNG operates.

PNG witness Maust testified that PNG serves approximately 135,000 customers in South Carolina and that during the twelve month period ending March 31, 2012, PNG delivered approximately 25,264,000 dekatherms of natural gas to its South Carolina customers. Mr. Maust also explained the calculation of PNG customer growth and Design Day needs and the process utilized by PNG to acquire new capacity. PNG has continued to experience a reduction in weather normalized usage per customer which may be due to the efficiency of new appliances used by customers as well as increased price awareness and conservation efforts on the part of customers. PNG and the natural gas industry have not seen evidence that conservation/reduced usage occurs during Design Day conditions. Mr. Maust also testified that PNG's hedging plan

continued to act as an insurance policy during the Review Period to reduce gas cost volatility to South Carolina customers purchasing gas from PNG. PNG's South Carolina customers incurred a net economic cost of \$1,101,308 as a result of PNG's hedging plan during the Review Period.

In his settlement testimony, PNG witness Thornton testified that, following extensive review, examination and discussions between PNG and the ORS, both parties agreed to each of the matters stipulated in the Settlement Agreement. The Settlement Agreement is offered by all parties as a fair, reasonable and full resolution of all issues in this proceeding as signified by all parties being signatories to the Settlement Agreement.

ORS witness Sullivan testified that ORS had performed an examination of PNG's deferred account #253.04 for the Review Period and based upon that examination it is the opinion of ORS that account #253.04 is accurately stated and that the balance of \$482,118 fairly represents PNG's under-collection balance as of March 31, 2012. On questions by the Commission, Mr. Sullivan also confirmed that PNG had correctly calculated the interest due on supplier refunds that were subject to adjustment in PNG Account #253.04.

ORS witness Sires testified, in his adopted testimony, that PNG had adequate firm supplies to meet its firm customer requirements; is continuing its attempts to get the best terms available in its negotiations with suppliers; has used the spot market to purchase supplies for periods of one month or less; and managed its hedging activities in a manner consistent with the terms of its approved hedging program during the Review Period. Mr. Sires also testified that ORS had no recommended changes to PNG's hedging program at this time.

The July 2, 2012 Settlement Agreement reflected the Parties agreement that: (i) PNG's gas purchasing policies and practices during the Review Period were reasonable and prudent; (ii) PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant

Commission orders during the Review Period; (iii) PNG managed its hedging program during the Review Period in a reasonable and prudent manner consistent with Commission orders; and (iv) the end-of-period balances for PNG's hedging and deferred gas cost accounts are those reflected in the testimony of ORS witness Sullivan.

NOW, THEREFORE, based upon the foregoing, IT IS HEREBY DECLARED AND ORDERED THAT:

1. The pre-filed direct testimony of PNG witness Sarah E. Stabley and the pre-filed direct testimony and exhibits of PNG witness Keith P. Maust and the pre-filed direct testimony and exhibits and the settlement testimony of PNG witness Robert L. Thornton are accepted into the record without objection.

2. The pre-filed direct testimony and exhibits of ORS witnesses Daniel F. Sullivan and the pre-filed direct testimony of Cary M. Stites, as adopted by ORS witness Brent Sires, are accepted into the record without objection.

3. The Settlement Agreement is accepted into the record and incorporated into and made part of this Order by reference and, based upon the testimony and exhibits presented at the hearing of this matter, is found to be in the public interest and constitutes a reasonable resolution of the issues in this proceeding.

4. PNG's gas purchasing policies and practices during the Review Period were reasonable and prudent.

5. PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period.

6. PNG managed its hedging program during the Review Period in a reasonable and prudent manner consistent with Commission orders.

7. The end-of-period balances for PNG's hedging and deferred gas cost accounts are those reflected in the testimony of ORS witness Daniel F. Sullivan.

8. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

David A. Wright, Chairman

ATTEST:

Randy Mitchell, Vice-Chairman